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THIRD QUARTERLY REPORT

**Jiangsu NandaSoft Company Limited**  
(a joint stock limited company incorporated in the People's Republic of China)



**NANDASOFT**  
南大苏富特

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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*This report, for which the directors of Jiangsu NandaSoft Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Jiangsu NandaSoft Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

**NANDASOFT**

南大苏富特

**JIANGSU NANDASOFT COMPANY LIMITED \*****江蘇南大蘇富特軟件股份有限公司***(a joint stock limited company incorporated in the People's Republic of China)***HIGHLIGHTS**

- Achieved a turnover of approximately RMB267,989,000 for the nine months ended 30th September, 2003, representing an approximately 29.4% increase as compared with that of the corresponding period in 2002
- Accomplished a net profit of approximately RMB7,134,000 for the nine months ended 30th September, 2003
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2003

**3RD QUARTERLY RESULTS**

The board of Directors ("Board") of Jiangsu NandaSoft Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three and nine months ended 30th September, 2003.

For the three months ended 30th September, 2003, the unaudited turnover is approximately RMB88,039,000, representing a growth of approximately RMB19,828,000, or approximately 18.4% in turnover as compared with that of the same period in 2002.

For the nine months ended 30th September, 2003, the unaudited turnover is approximately RMB267,989,000, representing an increase of approximately RMB60,838,000, or approximately 29.4% in turnover as compared with that of the same period in 2002.

\* *For identification purpose only*

The unaudited net profit of the Group for three months ended 30th September, 2003 is approximately RMB4,132,000 representing an slightly increase in the results of approximately 0.4%. For the nine months ended 30th September, 2003, the unaudited net profit of the Group is approximately RMB7,134,000, representing a decrease in the results of approximately 31.8% as compared with the corresponding figures in 2002.

The unaudited results of the Group for the three months and nine months ended 30th September, 2003 together with the unaudited comparative figures for the corresponding period in 2002 are as follows:

	Notes	For the three months ended 30th September,		For the nine months ended 30th September,	
		2003 RMB	2002 RMB	2003 RMB	2002 RMB
Turnover	2	<b>88,038,712</b>	107,866,604	<b>267,989,484</b>	207,151,595
Cost of sales		<b>(74,649,440)</b>	(93,018,985)	<b>(228,861,201)</b>	(169,983,853)
Gross profit		<b>13,389,272</b>	14,847,619	<b>39,128,283</b>	37,167,742
Other revenue		<b>1,334,229</b>	389,776	<b>3,270,271</b>	2,306,943
Distribution costs		<b>(4,905,523)</b>	(5,450,062)	<b>(16,953,003)</b>	(13,097,584)
Research and development costs		<b>(912,076)</b>	(1,641,655)	<b>(4,233,012)</b>	(3,237,340)
Administrative expenses		<b>(4,292,597)</b>	(2,633,494)	<b>(13,182,431)</b>	(10,256,652)
Profit from operations		<b>4,613,305</b>	5,512,184	<b>8,030,108</b>	12,883,109
Finance costs		<b>(10,681)</b>	(156,000)	<b>(38,266)</b>	(183,837)
Profit before taxation		<b>4,602,624</b>	5,356,184	<b>7,991,842</b>	12,699,272
Taxation	3	<b>(345,761)</b>	(777,959)	<b>(775,312)</b>	(1,450,793)
Net profit before minority interests		<b>4,256,863</b>	4,578,225	<b>7,216,530</b>	11,248,479
Minority interests		<b>(125,059)</b>	(463,885)	<b>(82,431)</b>	(783,775)
Net profit attributable to shareholders		<b>4,131,804</b>	4,114,340	<b>7,134,099</b>	10,464,704
Earnings per share — basic	4	<b>0.0044</b>	0.0044	<b>0.0076</b>	0.0112

Notes:

### 1. Basis of Presentation

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 30th December, 1999 and its H shares were listed on the GEM (the "Listing") on 24th April, 2001, details of which are set out in the prospectus of the Company dated 19th April, 2001 (the "Prospectus"), issued in respect of the Company's H shares listed on GEM.

The above results were prepared on the basis that the existing Company's structure had been in place throughout the period from 1st January, 2001 to 30th September, 2003.

The financial statements of the Group have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the Rules Governing the Listing of Securities on GEM.

### 2. Turnover

Turnover, which is stated net of value added tax and other sales tax and returns, represents amounts invoiced to customers, except in respect of provision of IT consulting services where turnover represents the value of work done during the period, including amounts not yet invoiced.

	For the three months ended 30th September,		For the nine months ended 30th September,	
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Sales of computer software products	2,950,919	2,293,193	5,127,959	7,725,822
System integration	85,087,793	105,573,411	262,861,525	199,425,773
	<b>88,038,712</b>	107,866,604	<b>267,989,484</b>	207,151,595

### 3. Taxation

	For the three months ended 30th September,		For the nine months ended 30th September,	
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
The charge comprises:				
PRC income tax	345,761	777,959	775,312	1,450,793

Pursuant to an approval document issued by the Science and Technology Committee of Nanjing Municipality dated 27th December 1999, the Company has been designated as a high and new technology enterprise and is exempted from PRC income tax for two years starting from their first profit making years, followed by a 50% reduction for the next three years. Accordingly, the Company is exempted from PRC income tax for the two years ended 31st December 2000 and a reduced income tax rate of 16.5% starting from the year 2001. Except for Shanghai Nandasoft Information Technology Company Limited which is subject to income tax rate of 15%, the Company's subsidiaries are subject to the income tax of 33%.

#### 4. Earnings Per Share

The calculation of basic earnings per share for the three months and nine months ended 30th September, 2003 was based on the profit attributable to shareholders of approximately RMB4,132,000 and RMB7,134,000 (three months and nine months ended 30th September 2002: net profit approximately RMB4,114,000 and RMB10,465,000) and on 934,000,000 (2002: 934,000,000) shares in issue during the period.

Diluted earnings per share is not presented for the three months and nine months ended 30th September, 2003 and 2002 as there were no potential dilutive securities in existence during the relevant periods.

#### 5. Reserves

Other than the profit for the period as disclosed in the consolidated statement of changes in equity, there were no movements in reserves of the Group for the relevant periods in 2002 and 2003.

### **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the nine months period ended 30th September, 2003. (2002: Nil)

### **MANAGEMENT DISCUSSION AND ANALYSIS**

#### **Financial Review**

##### **Results**

For the nine months ended 30th September, 2003, the Group has accomplished a revenue of approximately RMB267,989,000 and a net profit of approximately RMB7,134,000, representing a growth of 29.4% in revenue and a decrease of 31.8% in net profit. For the three months ended 30th September, 2003, the Group has accomplished a revenue of approximately RMB88,039,000 and a net profit of approximately RMB4,132,000. This represented a decrease of 18.4% in total revenue and a slightly increase of 0.4% in net profit as compared to the same period in the previous year.

The improvement in the sale of the Group was due to a combination of sales network expansion and successful marketing efforts which provide the Company with good business development and market recognition. During the period, a substantial amount of resources was placed on the product promotional and business activities to increase the Company's market share and competitiveness. It is mainly attributable to the Company's strategies to speed up the process of product development, as well as strengthen its sales network and expand its product market.

The Board believes that the product development and expansion of sales network is essential and in the interests of the Company's long-term development despite its evident effects to the results for the period.

## **Business Review**

### **Product Development**

#### ***Network security total solutions***

During the period, the Company had successfully developed the product — SoftNIDSv2.0 which had passed the appraisal by the Quality Control and Inspection Center of Security Products for Computer Information Systems of the Bureau of Public Security, and was granted the sales permit for the official launch to the market. SoftNIDSv2.0 is a new network intrusion detection system that provides realtime alert and auto response through the examination of intrusion attacks in computer network.

#### ***Internet Application Software***

In respect of the Group's new digital filing business, we have achieved effective breakthroughs in the R&D of the core technologies and products for establishing digital archives, and the business has commenced promotional efforts in the filing market in Jiangsu. Up to the present, the Group has already entered into development contracts with Suzhou Archives and Archives of Jiangning, Nanjing.

The Group developed WebOA3.1, the upgraded version of WebOA3.0 targeting specially at government office, which received more extensive application within the province.

The provincial business electronic system of the Jiangsu Salt Affairs Bureau undertaken by the Group was under trial run.

The "International logistics public information platform development and application demonstration", a key technological upgrading scheme of Jiangsu Province undertaken by the Group, is now under implementation in Suzhou Logistics Center.

#### ***Electronic Government Businesses***

The security official document circulation system was promoted to provincial, municipal and county governments continuously. The implementation and trial run in Danyang Municipal Government were completed during the period.

The new technological planning management system with e-government function in the scientific and technological planning projects of Jiangsu Science and Technology Department was under research and development.

## **Market Sale and Development**

In the selection of the “Top 100 Enterprises for scale of the PRC Software Industry 2003” by Ministry of Information Industry and National Bureau of Statistics of China, the Company came 50 in the “Top 100 Enterprises of the PRC Software Industry 2003” with outstanding results. The assessment covered in the statistics includes software research and development (“R&D”) and manufacturing enterprises, which are independent legal bodies with annual sales income over RMB1,000,000.

During the period, Soft passed the certification of National Computer Information System Integration Grade 2 Quality, which reflects the strength of the Company in the system integration industry and lays the foundation for further expansion into new industrial areas in the future.

The Company has successfully undertaken large-scale network construction projects, such as the construction of the education network of Lianyungang City (云港教育城) domain web, Nanjing Jinling High School Hexi and the information system for Nanjing financial system.

In August, the Company held the 2003 Security Integration Solutions Conference and New Products Launch Event in Nanjing. This marked the beginning of the marketing activities for Soft security series products throughout the whole nation. On the other hand, the Company held Hangzhou Network Information Security Technology Conference in Qiandaohu, successfully enhancing the knowledge of NandaSoft Company by various government departments in Zhejiang Province. The conference also realized in-depth promotion for the entire series of network security products, such as Softwall, SoftIDS, SoftVPN, NandaSoft SOHO Firewall (蘇富特萬元防火牆), thereby laying the foundation for the sales of Soft security products in Zhejiang Province.

During the period under review, further expansion in the sales of Soft network security products was recorded, with successful infiltration into the markets in Anhui, Zhejiang and Shanxi. Sales within and without the province were similar. Soft intrusion detection system was successfully launched to the market, and was highly valued by users such as Suzhou Bureau of Public Security and Hangzhou Statistics Bureau.

## **Future Prospects**

The informationization of the industry, surge of network users and popularization of broadband network have led to an increase in the occurrence rate of network security events. Coupled with users’ enhanced consciousness for network security and the direction of national policy, the market demand for security products is significantly increased, consolidating the foundation for the Company’s further expansion of the sales of its



network security solutions. In the fourth quarter, the Company will continue to strengthen its R&D and speed up its launch of new products. Meanwhile, the Company will strive to establish the Soft security brand name and expand its market share through a series of marketing activities.

## ***DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES***

As at 30th September, 2003, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which are required (a) to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

### ***Long positions in shares***

<b>Name</b>	<b>Type of interests</b>	<b>Number of shares</b>	<b>Capacity</b>	<b>Percentage of deemed beneficial interest in the Company's share capital</b>
<b>Directors</b>				
Xie Li	Other (Note 1)	11,900,000	Interest of a controlled corporations	1.27%
Zhang Yun Xia	Personal (Note 2)	9,000,000	Beneficial Owner	0.96%
Chen Dao Xu	Other (Note 1)	500,000	Interest of a controlled corporations	0.05%
<b>Supervisors</b>				
Zhou Ming Hai	Other (Note 1)	5,000,000	Interest of a controlled corporations	0.54%
Xiong Xian Gen	Other (Note 1)	2,000,000	Interest of a controlled corporations	0.21%
Wang Dao Wu	Other (Note 1)	1,000,000	Interest of a controlled corporations	0.11%
Zhou Wen Da	Other (Note 1)	780,000	Interest of a controlled corporations	0.08%
Shi Jian Jun	Other (Note 1)	500,000	Interest of a controlled corporations	0.05%

*Notes:*

- (1) These shares are held through the Worker Union of Jiangsu Provincial Management Center for Education Equipment and Self-supporting School (the "Union"). The Union, being a social organisation legal person established under the laws of the PRC by changing the name from Worker Union of Jiangsu Educational Instrument Corporation on 1st July, 2001, holds 110,000,000 shares, or approximately 11.78% shareholding in the Company for and on behalf of the staffs of the Company including directors and supervisors and owns 15% equity interest in Jiangsu Co-Creation Education Development Company Limited ("Jiangsu Co-Creation").
- (2) These shares are directly held by an ex-director of the Company, who is also the spouse of Zhang Yun Xia.

Save as disclosed in this paragraph, as at 30th September, 2003, none of the Directors had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

## **DISCLOSURE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS**

So far as was known to any Director or chief executive of the Company, as at 30th September, 2003, the persons or companies (not being a Director or chief executive of the Company) who had equity interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or who were director indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

### **Long positions in shares**

Shareholder	Capacity	Number of Shares	Percentage of registered share capital
Nanjing University	Beneficial Owner	200,000,000	21.41%
Jiangsu Zongyi Company Limited ("Zongyi") (Note 1)	Beneficial Owner	160,000,000	17.13%
	Interest of a controlled corporations	21,540,000	2.31%

Shareholder	Capacity	Number of Shares	Percentage of registered share capital
Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School ("Jiangsu Management Centre") (Note 2)	Beneficial Owner	60,000,000	6.42%
	Interest of a controlled corporations	76,500,000	9.64%
The Union (Note 3)	Beneficial Owner	110,000,000	11.78%
	Interest of a controlled corporations	13,500,000	1.45%
Jiangsu Co-Creation Education Development Company Limited	Beneficial Owner	90,000,000	9.64%
Golden 21 Investment Holdings Limited (Note4)	Beneficial Owner	25,842,000	2.77%

## Notes:

- (1) The interest of Zongyi comprises:
- (a) 160,000,000 domestic shares (representing approximately 17.13% of the Company's issued share capital) held by Zongyi; and
  - (b) 21,540,000 domestic shares (representing approximately 2.31% of the Company's issued share capital) held through Jiangsu High-tech Industry Investment Company Limited (Formerly known as Jiangsu Property Business Company Limited and adopting the present name on 26th April, 2001), which is approximately 53.85% owned by Zongyi.
- (2) Jiangsu Management Center is a professional unit entity established by changing the name from Jiangsu Educational Instrument Corporation on 1st July, 2001 pursuant to the PRC law. The interest of Jiangsu Management Center comprises:
- (a) 60,000,000 domestic shares (representing approximately 6.42% of the Company's issued share capital) held by Jiangsu Management Center; and
  - (b) 76,500,000 domestic shares (representing approximately 8.19% of the Company's issued share capital) held through Jiangsu Co-Creation, which is approximately 85% owned by Jiangsu Management Center.
- (3) The interest of the Union comprises:
- (a) 110,000,000 domestic shares (representing approximately 11.78% of the Company's issued share capital) held by the Union; and
  - (b) 13,500,000 domestic shares (representing approximately 1.44% of the Company's issued share capital) held through Jiangsu Co-Creation, which is approximately 15% owned by the Union.
- (4) The interest of Golden 21 Investment Holdings Limited represents approximately 11.04% of total H shares and representing approximately 2.77% of the total domestic and H shares.

Save as disclosed above, as at 30th September, 2003, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

### ***DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES***

Save as disclosed above, during the three months ended 30th September, 2003, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 30th September, 2003, none of the directors or the supervisors nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

### ***SHARE OPTION SCHEME***

The Company has adopted the share option scheme. A summary of the principle terms and conditions of the share option scheme are set out in the section headed "Summary of the Terms of the Share Option Scheme" in Appendix VI of the Prospectus. Up to 30th September, 2003, no option has been granted pursuant to such share option scheme.

### ***COMPETING INTERESTS***

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group.

### ***SPONSOR'S INTEREST***

As updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("Sponsor"), as at 30th September 2003, neither the Sponsor nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of the Sponsor, had any interest in the share capital of the Company.

Pursuant to an agreement dated 18th April, 2001 entered into between the Company and the Sponsor, the Sponsor has received and will receive a fee for acting as the Company's retained sponsor for the period from 24th April 2001 to 31st December, 2003 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

## **AUDIT COMMITTEE**

The Company established an audit committee on 8th December, 2000 with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors, Mr. Xu Huan Liang and Professor Wang Zhi Jian, and one executive director, Professor Xie Li, Chairman of the Company.

## **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company had complied throughout the period under review the minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the three months ended 30th September, 2003.

On behalf of the Board

**Xie Li**

*Chairman*

24th October, 2003, Nanjing, the PRC